

STATEMENT OF
THE DEPARTMENT OF TRANSPORTATION
TO THE SENATE BUDGET COMMITTEE
ON THE LOSS OF AIR CARRIER SERVICE
BETWEEN WASHINGTON NATIONAL AIRPORT AND KNOXVILLE
MAY 30, 1985

The Department of Transportation would like to thank you for the opportunity to contribute to this examination of the circumstances and implications of United Airlines' decision to eliminate its service between Knoxville and National Airport in Washington. In particular, you have asked that the Department's role in this matter be discussed. It is in this context, Mr. Chairman, that you and other representatives of East Tennessee and Northern Alabama have requested that the Department provide slots at National Airport to Eastern Air Lines in order that they might initiate service to Knoxville and Huntsville.

First, let us be clear about what has taken place. United Airlines has decided that for what it considers to be sound business reasons it would no longer operate its round trip, non-stop service between Knoxville and Washington National Airport. Eastern Air Lines has subsequently offered to initiate service to Knoxville from Washington National, provided they are given additional slots to do so.

Slots, or reservations for arriving or departing aircraft, are necessary at four airports (Chicago O'Hare, Washington National, and Kennedy and LaGuardia in New York) because the demand for

service at those airports substantially exceeds the ability of the air traffic control system to handle flights at those airports without undue delays. These limitations have been in effect since 1968 when the Federal Aviation Administration imposed the High Density Traffic Airports Rule, 14 CFR 93.121 et seq.

The Department's authority to impose these restrictions stems from its authority under section 307 of the Federal Aviation Act, 49 U.S.C. 1348, to promulgate rules and regulations to ensure the safe and efficient use of the navigable airspace.

Under the High Density Rule, operating restrictions have been established for three classes of users — air carriers, scheduled air taxis and other users. An air carrier operation is defined as one which uses aircraft with 56 or more seats and an air taxi operation is defined as one which uses aircraft with less than 56 seats. At Washington National, 37 air carrier operations and 11 air taxi operations are permitted each hour. A slot is necessary for each take-off and landing.

Although the High Density Rule imposes limits on the total number of permissible operations and allocates an aggregate number of slots to the various classes of users, the regulation does not assign slots to the specific users. Rather, the allocation of these slots has been performed by airline scheduling committees comprised of those carriers that serve the High Density airports,

as well as potential new entrants. The scheduling committees operate under antitrust immunity that was first granted by the Civil Aeronautics Board in Order 68-12-11. The committees continue to operate under authority that the Department inherited with the sunset of the CAB at the beginning of this year.

Since their inception, the scheduling committees have been required to operate under various restrictions to ensure that their actions will not be unduly anticompetitive. For example, the committees have been prohibited from discussing markets. The committees thus can not require that service be provided over specific routes. Carriers obtaining slots are free to use them in any market they choose.

Under the scheduling committee arrangement, the economic decisions -- which markets to serve -- are made by the airlines and not by federal regulators. While the Department agrees that it has the underlying authority to control the use of slots if the airline scheduling committees are unable to agree upon an allocation, we must exercise that authority in a manner that is consistent with other federal statutes and is not arbitrary or capricious.

The deregulation of the airline industry has had a number of important effects on demand for slots at the controlled airports and, as a consequence, on the scheduling committee activities. First, it has allowed new carriers, like People Express and New

York Air, to come into being, thus increasing the demand for the scarce slots. Second, it has freed existing carriers to make route changes in response to business conditions, thereby creating pressures to change the rather static distribution of these slots that predated deregulation. Third, deregulation has allowed the practice of "hubbing" by the carriers to expand dramatically. While hubbing is an efficient way to operate an air transportation service, it can place great pressure on the system by exacerbating the natural peaking which characterizes air travel demand. It can also result in nonstop service being replaced with connecting service.

Clearly, deregulation has had a major impact on many phases of the air transport industry, as well as on the operation of the High Density airports. Prior to deregulation the air carrier industry could be best characterized as a protected, cost plus profit, service industry. What this means is that because of the protections offered by the regulatory process, airlines were assured that they would be compensated for the cost of operating their services plus some profit margin.

Moreover, since price competition was effectively precluded by the regulatory structure, the carriers were forced to compete on the basis of service, amenities and equipment, thus elevating costs still further. In effect, regulation confined the market for air transport service to the high cost, high service end of the spectrum rather than encouraging an offering of services across the full range of costs and prices.

Another major effect of regulation was to impose a particular pricing structure on the industry. In order to ensure service at what the regulators determined were acceptable prices, fares were established that made up losses in shorter, less dense markets by overcharging travelers in longer, more heavily traveled markets. The entire nation suffered from economic inefficiencies caused by the cross-subsidization.

Deregulation was intended to correct these shortcomings by allowing freer entry into the industry and by eliminating the restrictions on the carriers' ability to set prices and enter and leave markets in response to business and economic considerations. We believe, and the evidence indicates, that these objectives have, in fact, been attained.

By all of the measures the Department has available -- service, traffic, price and industry condition -- deregulation has been a resounding success for the nation as a whole. We know that certain individual communities have seen their airline service reduced, but on the whole service is better. On average there are more flights available than before deregulation -- thirty-two percent more flights overall to all airports than prior to deregulation. And all categories of airports -- from large hubs to non-hubs -- show increases. In the state of Tennessee weekly scheduled flights are up by nearly nineteen percent since deregulation took effect, and here in Knoxville flights have increased by twenty-eight percent.

While regular fares (first class and coach) have increased since deregulation, passengers now have a wide variety of discount fares that were not available before. Prior to deregulation thirty percent of air travelers flew under discount rates; now eighty percent are able to take advantage of discounts. The average actual fare paid by passengers has increased significantly less since 1978 than the Consumer Price Index or than it would have under the old regulatory approach.

This has meant that whole new classes of travelers -- the young, the elderly and students -- are flying. A recent Department of Transportation study shows that revenue passenger miles are now 17 percent higher than they would have been under the continuation of airline regulation.

And how has the industry fared under deregulation? On the whole quite well. The air carrier industry is coming off a record year in 1984 for both passengers and freight carried. Operating profits for the industry amounted to a new record of over two billion dollars.

At the Department of Transportation, we must look at the impact the nation as a whole. And we believe that the nation has benefited substantially from airline deregulation. A study by the American Association of State Highway and Transportation Officials concludes that the traveling public saved ten billion dollars in the first five years of airline deregulation.

The particular problem we face today is more specific — that of service between Washington National Airport and Knoxville and the propriety of the Department of Transportation taking action to ensure that service. The Airline Deregulation Act precludes the Department from regulating routes; thus, the Department cannot require that slots allocated to a carrier be used for the purpose of serving any particular route. The fact that Eastern is the largest carrier at National Airport, with about one-fifth of the total available slots, makes the development of any reasonable rationale for providing additional slots to it even more difficult. It is within Eastern's discretion to decide how many of its existing slots it should allocate to Knoxville service.

The Department certainly appreciates the reasons that the communities of Knoxville and Huntsville want to see the service which they enjoyed from United Airlines continued. By the same token we believe the experience of deregulation is continuing proof that the Nation benefits when business decisions are left to the market and to the businesses serving those markets.

Even now the market is adjusting to the perceived need for service between Knoxville and Washington. Two airlines have initiated new one-stop flights from National to Knoxville, and new one-stop service is available to Knoxville from both Dulles and Baltimore/

Washington International Airports. We believe that, given time, the market will make the most appropriate and efficient allocation of the resources available to it.

The Department would like to thank you for the opportunity to present its views on this issue.